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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA
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Business in Virginia March, 1984 Data

All of the indicators we report showed business in Virginia was better in March 1984 than in March 1983. Furthermore, the cumulative results for the first quarter of 1984, reported in Table III, reveal the same pattern: business in the first quarter of 1984 was substantially better than in the first quarter of 1983. These results are no surprise, since the year in between has been one of strong recovery in the State. The leading forces in that recovery have been new construction and consumer demand for durable goods. The continuing strength of these forces is shown by the 51.3 percent increase in building permits, and the 26.8 percent increase in new car registrations in urban areas, for the first quarter of 1984 compared to the first quarter of 1983. In March, these two indicators still were advancing strongly. Building permits were up 47.1 percent over Mach 1983, indicating a large volume of new construction is planned in the coming months. New car registrations in March were 19.7 percent higher than in March 1983, a sign that consumer demand for durable goods still is at a high level.

The present level of economic activity in Virginia is a substantial accomplishment. However, two appropriate questions are how strong is the current pace of the recovery, and where is it heading? To answer these questions, we compared the current growth rates, for the first quarter and for March, to the growth rates reported in previous issues.

Last April's issue showed the growth rates for the first quarter of 1983, compared to the first quarter of 1982. Those growth rates revealed that economic recovery was slowly beginning in the State. Comparing the first quarter 1984 growth rates in Table III to the 1983 growth rates, every growth rate except one was substantially higher this year than in the first quarter of 1983. The only exception was our sample of retail sales, which advanced 7.8 percent in the first quarter of this year, compared to a 13.9 percent rise in the first quarter of 1983. Thus by almost all measures, the pace of economic growth in Virginia was considerably stronger in the first quarter of 1984 than in the same quarter last year. This performance parallels the national results. In the first quarter of 1983, actual output in the nation grew only 2.6 percent, as the recovery hesitantly began. For the first quarter of 1984 output grew at an 8.3 percent annual rate, well above expectations.

Where are we heading? A comparison of the March growth rates with those of the first two months of 1984 and with those of last March offers a perspective. Like the national rates, the March growth rates in Virginia generally were below the average results for January and February. However, most of the March growth rates (1984 over 1983) were *above* the growth rates achieved in March 1983, when the comparison was 1983 over 1982, a recession year. In sum, the Virginia economy experienced high growth in the first two months of 1984, with slower growth in nearly all types of business activity in March. However, the lower March growth rates do not indicate the recovery is ending. The rates still are quite high, well above the rates of growth being achieved at this time last year. For Virginia as well as the nation, several more quarters of economic expansion can be expected.

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Chart I

Nine Selected Business & Economic Indicators Percentage Change

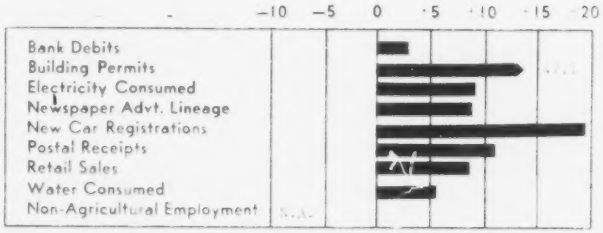
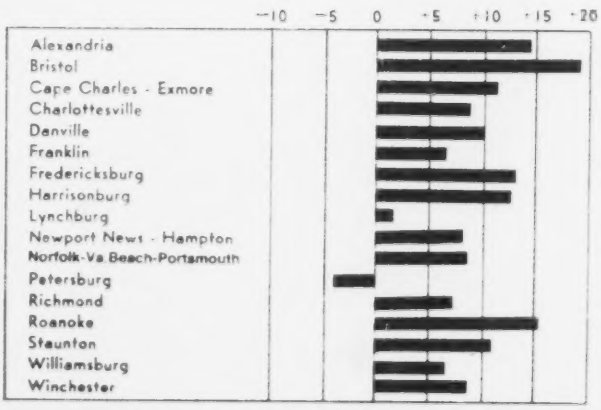


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I — Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		281.4	195.8	127.2	96.6	104.3	N.A.	82.3	174.2	292.3
Alexandria	291.3	234.4	800.4	132.0	N.A.	114.8	N.A.	87.8	156.5	N.A.
Bristol	143.0	234.1	83.5	117.3	76.6	92.6	N.A.	75.6	138.2	275.8
Cape Charles - Exmore	133.6	222.9	305.3	109.1	N.A.	89.1	N.A.	N.A.	109.4	185.9
Charlottesville	176.3	287.8	227.9	122.8	N.A.	120.1	N.A.	104.0	171.5	261.2
Danville	98.1	N.A.	187.7	106.2	101.9	111.8	N.A.	77.3	48.1	243.2
Franklin	123.5	N.A.	57.9	114.5	121.9	102.2	N.A.	86.8	112.5	215.0
Fredericksburg	155.6	80.9	105.1	N.A.	134.3	146.1	N.A.	55.0	190.8	256.1
Harrisonburg	168.7	285.0	415.6	N.A.	148.3	72.2	N.A.	110.8	163.5	242.5
Lynchburg	246.1	405.7	191.2	121.2	N.A.	100.0	N.A.	101.0	139.8	820.2
Newport News - Hampton	113.9	203.2	238.2	112.4	81.1	91.8	N.A.	107.8	104.9	N.A.
Norfolk - Va. Beach - Portsmouth	124.7	94.2	228.5	135.8	85.6	101.9	N.A.	76.0	167.9	N.A.
Petersburg	111.3	110.3	72.4	N.A.	67.1	67.0	N.A.	88.7	114.3	214.4
Richmond	138.9	238.8	N.A.	139.8	107.8	103.7	N.A.	89.6	108.9	244.1
Roanoke	177.3	445.2	70.1	104.9	134.0	75.7	N.A.	102.4	161.5	249.3
Staunton	122.4	134.8	49.1	N.A.	74.7	80.4	N.A.	N.A.	119.1	209.9
Williamsburg	139.8	177.0	728.0	143.9	N.A.	106.3	N.A.	80.5	113.5	270.0
Winchester	161.4	214.0	49.4	129.0	180.3	123.4	N.A.	129.7	112.7	310.8

TABLE II — March, 1984 — Percentage Change from same month last year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Feb. RETAIL SALES ‡
The State		3.7	47.1	9.0	8.8	19.7	N.A.	5.1	8.4	21.1
Alexandria	14.7	13.3	206.7	6.4	N.A.	21.6	N.A.	4.9	18.8	31.9
Bristol	19.3	-5.7	116.1	11.3	3.7	14.4	N.A.	30.5	33.5	18.3
Cape Charles - Exmore	11.7	45.4	42.4	3.1	N.A.	66.7	N.A.	N.A.	-15.1	11.0
Charlottesville	8.3	33.0	-53.5	8.7	N.A.	13.4	N.A.	0.6	0.7	4.5
Danville	10.0	N.A.	0.2	5.1	-1.6	35.6	N.A.	2.9	9.4	13.0
Franklin	6.6	N.A.	283.2	14.4	12.6	29.2	N.A.	-8.0	-0.6	14.3
Fredericksburg	13.6	-3.1	-23.0	N.A.	7.0	32.0	N.A.	6.1	17.7	22.5
Harrisonburg	12.7	49.0	76.6	N.A.	5.3	-5.6	N.A.	-1.0	13.7	25.8
Lynchburg	2.0	-19.3	-65.7	4.8	N.A.	21.4	N.A.	-6.3	4.5	29.4
Newport News - Hampton	7.7	16.3	42.2	5.5	16.3	16.0	N.A.	7.4	-0.1	13.5
Norfolk - Va. Beach - Portsmouth	8.6	22.2	10.9	6.3	12.8	18.3	N.A.	10.7	-0.4	16.0
Petersburg	-4.6	-27.7	28.5	N.A.	-12.3	26.3	N.A.	-10.3	-3.0	1.2
Richmond	7.2	0.8	612.6	20.4	10.9	18.1	N.A.	1.2	2.0	10.8
Roanoke	15.4	21.2	31.2	9.6	4.8	13.6	N.A.	4.4	23.3	25.8
Staunton	11.5	34.4	-11.0	N.A.	-1.3	19.5	N.A.	N.A.	5.4	1.1
Williamsburg	6.3	19.2	510.9	8.3	N.A.	9.6	N.A.	21.6	-4.9	6.3
Winchester	8.9	3.5	-26.6	5.9	18.1	16.1	N.A.	7.5	6.6	18.2

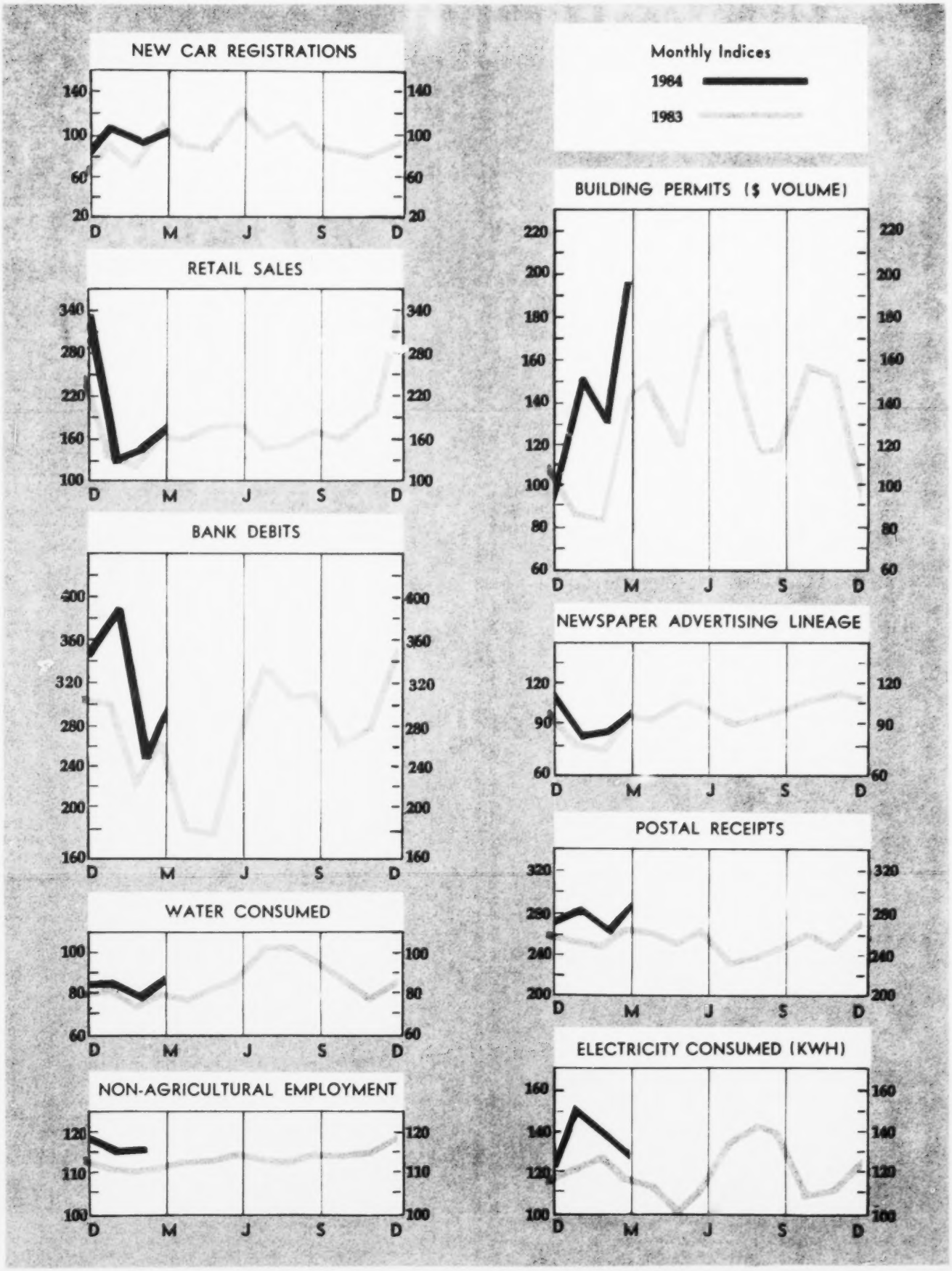
TABLE III — Percentage Change January - March from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Jan.-Feb. RETAIL SALES
The State		14.5	51.3	14.1	11.4	26.8	N.A.	6.5	7.8	23.1
Alexandria	17.9	32.6	166.7	10.9	N.A.	24.8	N.A.	4.7	17.5	27.2
Bristol	20.9	-3.6	89.6	14.3	-1.3	28.6	N.A.	45.4	28.0	19.2
Cape Charles - Exmore	8.9	35.6	-50.4	-11.1	N.A.	61.8	N.A.	N.A.	-10.9	22.8
Charlottesville	11.9	47.5	212.1	13.1	N.A.	26.4	N.A.	-12.8	3.6	20.7
Danville	10.6	N.A.	293.1	6.7	9.2	40.2	N.A.	-0.2	6.2	20.4
Franklin	11.3	N.A.	16.5	12.6	7.7	44.4	N.A.	-1.8	5.4	79.2
Fredericksburg	12.7	15.6	-53.0	N.A.	8.3	50.5	N.A.	8.5	2.1	46.6
Harrisonburg	12.9	29.6	74.7	N.A.	11.4	5.1	N.A.	7.4	12.2	30.7
Lynchburg	11.3	-7.8	-56.5	9.7	N.A.	30.6	N.A.	14.4	10.7	31.5
Newport News - Hampton	10.2	19.2	44.5	10.8	15.2	19.9	N.A.	12.9	1.2	14.9
Norfolk - Va. Beach - Portsmouth	16.3	51.9	29.4	13.4	13.9	21.4	N.A.	5.4	8.2	22.3
Petersburg	0.5	-16.2	253.7	N.A.	-3.8	26.5	N.A.	-7.8	1.5	14.5
Richmond	13.3	4.8	130.4	27.8	14.1	34.9	N.A.	5.5	6.3	19.6
Roanoke	12.9	34.3	-7.1	12.7	11.7	31.4	N.A.	7.8	1.8	26.1
Staunton	6.8	25.3	-1.8	N.A.	2.3	17.9	N.A.	N.A.	-1.5	-0.3
Williamsburg	8.3	1.6	232.7	12.5	N.A.	26.3	N.A.	20.3	-0.9	11.1
Winchester	12.0	11.2	12.2	15.2	10.2	25.2	N.A.	16.2	5.9	23.1

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.


Monthly Indices
1984
1983
NEW CAR REGISTRATIONS
140
100
60
20
D
M
J
S
D
RETAIL SALES
340
280
220
160
100
BANK DEBITS
400
360
320
280
240
200
160
WATER CONSUMED
100
80
60
NON-AGRICULTURAL EMPLOYMENT
120
110
100
BUILDING PERMITS ($ VOLUME)
220
200
180
160
140
120
100
80
60
NEWSPAPER ADVERTISING LINEAGE
120
90
60
POSTAL RECEIPTS
320
280
240
200
ELECTRICITY CONSUMED (KWH)

The Wall Street View — Right of Wrong?

This guest commentary was written by Norman Robertson, Senior Vice President and Chief Economist, Mellon Bank.

Good economic news, it seems, worries the financial markets. At a time when the economy is performing better than at any time in at least ten years, investors have become increasingly pessimistic as evidenced by the steep decline in stock prices. Since early January, for instance, the Dow Jones Industrial Average has dropped some 10 percent, which suggests perhaps that Wall Street is anticipating an economic slowdown or something worse within the next 12 months or so. To be sure, the stock market has predicted recessions which often failed to materialize. But then professional forecasters, including the vast majority of economists, have not fared that much better and certainly their record is far from perfect.

Why so much nervousness on Wall Street? The economic expansion, now in its second year, still has considerable forward momentum and appears well set to continue through at least the balance of 1984. Essentially the foreign trade sector remains the only serious negative in the 1984 outlook. This year's merchandise trade deficit might well approximate $110 billion, representing a boom-like surge of imports and a relatively sluggish upturn in exports. Unquestionably, this represents bad news for U.S. exporters and those domestic industries struggling to compete with foreign competition. However, the flow of imports has lowered the inflation rate and prevented the upswing in domestic production from climbing at an overly rapid rate which would have substantially increased the chances of capacity problems and bottlenecks.

For now, the economy does not appear to be overheating and there are no visible signs of the inflationary excesses and imbalances which are often the harbingers of recession. Wall Street, however, may be taking the view that inflation is not dead, only resting. There is in fact good reason to believe that the economy is moving very close to the zone where wage and price increases are likely to accelerate. Unemployment has already fallen to 7.8 percent and by year-end 1984 the rate may be in the neighborhood of 7 percent, not far above the 6.5 percent level which is widely accepted as "full employment." Pressures for large wage and benefit increases are likely to follow in the wake of declining unemployment and growing labor shortages, especially in a number of skilled occupations. Furthermore, labor is very unlikely to grant the type of wage and benefit concessions which have helped hold down costs so far in this recovery.

The decline in the unemployment rate has been accompanied by a dwindling margin of unused industrial capacity. In a number of industries, including textiles, paper, rubber, plastics and electrical machinery, operating rates have reached the 90 percent zone, suggesting that supply constraints are not far distant. It is obvious that as business firms endeavor to bring less efficient or marginal facilities into use, cost — and price — pressures are likely to mount. In sum, the U.S. economy is now operating at a fairly high rate of overall resource utilization, despite the persistence of heavy unemployment in some parts of the country, notably the nation's industrial heartland.

Investors, then, are probably worried about the dangers of accelerating inflation and the strong probability that the Federal Reserve will be forced to tighten credit — such a move has probably already taken place — thereby driving interest rates upward. And further adding to the stock market's lackluster performance is the attraction of a 12 percent bond yield as a viable alternative to equity purchases.

Somewhat paradoxically, the current rise in interest rates may help rather than hurt the economic expansion. A careful and cautious application of the monetary brakes accompanied by a moderate rise in rates will not derail the economy from its present growth track and might instead sustain the expansion's longevity beyond the post-World War II average of roughly three years. To wait until there is unmistakable evidence of economic overheating would undoubtedly necessitate a much heavier dose of monetary restraint, severe enough to topple the major credit-sensitive areas of the economy into another decline.

To the extent, therefore, that the Federal Reserve practices preventive rather than remedial medicine, there is, as already noted, a good chance that the longevity of the current expansion could be extended for a much longer period of time. All things considered, Wall Street probably has overreacted to the recent rise in interest rates and seems unduly alarmed that a moderate increase in borrowing costs will bring the expansion to a halt.

If, however, the recent drop in stock prices reflects fears of a collision between public- and private-sector borrowing — and sharply higher interest rates — in 1985, then Wall Street's concerns appear fully justified. At risk is the growing possibility that huge budget deficits at a time of expanding economic activity and rising credit demands from private borrowers will bring about another debilitating increase in interest rates. And, of course, a runup in rates — say three percentage points — would not only send the housing market into a tailspin but curtail capital spending and curb outlays for consumer durable goods as well. Until such time then as President Reagan and the Congress can agree on a credible deficit-reduction program, the economic outlook beyond the next six to nine months is likely to remain unsettled. And we should not be surprised that this uncertainty and uneasiness will be reflected in the behavior of stock prices.

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